

Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-08
EUR-12 FRB-03 INR-10 IO-13 NEA-11 NSAE-00 ICA-11
OPIC-03 SP-02 TRSE-00 LAB-04 SIL-01 AGRE-00
OMB-01 SS-15 L-03 STR-07 NSC-05 /128 W
-----049886 150240Z /73

R 140822Z JUN 78
FM AMEMBASSY SEOUL
TO SECSTATE WASHDC 1641

C O N F I D E N T I A L SEOUL 5044

DEPT PASS TREASURY

E.O. 11652: GDS
TAGS: ECON, ECIN, OECD
SUBJ: KOREAN PARTICIPATION IN OECD

REF: A. PARIS 11578, B. SEOUL 3966, C. SEOUL 4893

1. DIRECTOR GENERAL OF PLANNING KIM JAE-IK YESTERDAY TOLD THE ECON/COMMERCIAL COUNSELOR THAT THE ROKG HAD BECOME VERY CONCERNED ABOUT POSSIBLE OECD RESTRICTIONS ON KOREAN EXPORTS. KIM SAID THEY HAD LEARNED OF AN OECD STAFF STUDY (PRESUMABLY THAT MENTIONED IN REF A) WHICH THEY UNDERSTOOD THAD CATEGORIZED KOREA, TAIWAN, MEXICO, BRAZIL, HONG KONG AND SINGAPORE AS NEWLY INDUSTRIALIZING COUNTRIES. THE STUDY CHARACTERIZED THEM AS OVERINVESTING IN THE INDUSTRIAL-EXPORT SECTOR, UNDERINVESTING IN INFRASTRUCTURE, TAKING ADVANTAGE OF OECD LIBERAL TRADE REGIMES TO INCREASE THEIR EXPORTS VERY RAPIDLY AND IMPOSING HIGHLY RESTRICTIVE IMPORT REGIMES. AS A RESULT, THEY WERE RUNNIN BIG SURPLUSES ON TRADE AND WERE RAPIDLY ACCUMULATING FOREIGN EXCHANGE RESERVES. THEY WERE PURSUING MERCANTILIST POLICIES, AS JAPAN HAD DONE AND THREATENED TO BECOME AN EVEN BIGGER PROBLEM. THE STUDY CONCLUDED THAT MEASURES WOULD HAVE TO BE TAKEN TO LIMIT THEIR DISRUPTIVE
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EXPORTS TO THE OECD COUNTRIES.

2. THE STUDY HAD APPARENTLY BEEN LEAKED IN JAPAN AND HAD APPEARED IN THE PRESS THERE. KOREAN INDUSTRIES HAD THEN DEMANDED THAT THE ROKG RESPOND AND THE BLUE HOUSE HAD ASSIGNED THE TASK TO EPB. HOWEVER, THEY HAD BEEN UNABLE TO GET A COPY OF THE STUDY ANYWHERE. IF THE POINTS THEY HAD

HEARD WERE THE ONES MADE, THEY WERE CONFIDENT THEY COULD RESPOND, BECAUSE THEY THOUGHT ALL WERE WRONG INSOFAR AS KOREA IS CONCERNED. BUT WITHOUT THE STUDY, THEY FELT POWERLESS. THE CONVERSTATION BETWEEN ASST SECRETARY BERGSTEN AND THE MINISTER OF FINANCE AT VIENNA (REF B) SEEMED TO BE FOLLOWING THE SAME LINE AND THEREFORE SEEMED TO PLACE THE USG ON THE SIDE OF RESTRICTING ROK EXPORTS, A MUCH MORE THREATENING DEVELOPMENT.

3. KIM SAID THAT IN FACT HE HAD HAD A STAFF STUDY OF OECD MEMBERSHIP MADE LAST FEBRUARY. IT HAD NOT RECOMMENDED KOREA SEEK TO JOIN BECAUSE IT WAS TOO SMALL AND TOO POOR. THE MINISTRY OF FINANCE, HOWEVER, HAD PROPOSED TO GET ALL OF THE NECESSARY TRADE AND PAYMENTS LIBERALIZATION MEASURES PREPARED, SO THAT WHEN KOREA DID WANT TO JOIN, IT COULD IMMEDIATELY IMPLEMENT THEM. SUBSEQUENTLY, THE ROKG HAD LEARNED OF THE OECD STUDY AND NOW FELT IMPERILED. SINCE OECD COUNTRIES TOOK 70 PERCENT OF KOREAN EXPORTS, THE ROK WAS IN NO POSITION TO FIND ALTERNATIVE MARKETS. IT WOULD HAVE TO ACCEPT WHAT THE OECD OFFERED. HOWEVER, IT ALSO WANTED TO BE A FULL MEMBER AND TO HAVE A CHANCE TO BE HEARD ON THE POLICY-MAKING SIDE. TO THIS END, KIM AND SOME OTHERS IN THE ROKG WOULD BE PREPARED TO GO AHEAD MUCH MORE RAPIDLY ON THRANE AND PAYMENTS LIBERALIZATION.

4. KIM ENDED BY NOTING THAT THE MINISTER OF FINANCE WAS CONFIDENTIAL

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CONSIDERING SEEKING BLUE HOUSE APPROVAL TO ACCELERATE LIBERALIZATION AND TO RAISE OECD MEMBERSHIP WITH SECRETARY BLUMENTHAL DURING HIS TRIP TO WASHINGTON IN JULY.

5. COMMENT: KIM'S ACCOUNT OF EVENTS IS CONSISTENT WITH DISCUSSIONS EMBOFFS HAVE HAD WITH OTHER ROKG OFFICIALS (E.G., REFS B & C). IT WULD NOT BE SURPIRSING IF THE SUBJECT CAME UP DURING DEPUTY PRIME MINISTER NAM'S VISIT NEXT WEEK, ALTHOUGH HE WOULD BE RELUCTANT TO RAISE IT WITHOUT BLUE HOUSE AGREEMENT AND THAT MAY NOT COME IN TIME. ROKG CONCERNS ABOUT THE OECD STUDY AND USG SUPPORT FOR ITS CONCLUSIONS WILL, HOWEVER, BE AT THE BACK OF HIS MIND.

6. ACTION REQUESTED: WE WOULD LIKE TO GET CONFIRMATION THAT KIM JAE-IK'S UNDERSTANDING OF THE OECD STUDY IS CORRECT AND, IF POSSIBLE, TO OBTAIN A COPY OF THE STUDY ITSELF. WE ASSUME IT IS NOT RELEASABLE TO THE ROKG.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: GOVERNMENT REACTIONS, NEGOTIATIONS, EXPORT CONTROLS
Control Number: n/a
Copy: SINGLE
Draft Date: 14 jun 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978SEOUL05044
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780249-0565
Format: TEL
From: SEOUL
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780660/aaaabznn.tel
Line Count: 112
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: b4683289-c288-dd11-92da-001cc4696bcc
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 78 PARIS 11578, 78 SEOUL 3966, 78 SEOUL 4893
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 09 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2356060
Secure: OPEN
Status: NATIVE
Subject: KOREAN PARTICIPATION IN OECD
TAGS: ECON, ECIN, JA, OECD
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/b4683289-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014